

Fiscal Management Division
Statewide Fiscal Services Dept.
Expenditure Audit Section
Auditor: Raymond McClintock

Audit Report # 723-14-01
February 1, 2016

Post-Payment Audit of The University of Texas Medical Branch at Galveston



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EXECUTIVE SUMMARY

Audit scope

We audited a sample of The University of Texas Medical Branch at Galveston (University) payroll and construction contract transactions, refund of revenue and purchase transactions, plus all travel transactions, that processed through the Uniform Statewide Accounting System (USAS) during the period beginning March 1, 2013, through Feb. 28, 2014, to determine compliance with applicable state laws.

The audit provides a reasonable basis for the findings set forth in this report. The University should implement the recommendations listed in the Detailed Findings of this report. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the University's documents comply in the future. The University must ensure that the findings discussed in this report are resolved.

Texas law requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

Payroll transactions and payroll deductions

Payroll transactions were audited for compliance with the General Appropriations Act (GAA), the [Texas Payroll/Personnel Resource](#) and other pertinent statutes. The University was also audited for compliance with Human Resource Information System (HRIS) reporting requirements.

- No issues were identified.

A limited sample of voluntary contributions was also audited.

- No issues were identified.

Purchase transactions

Purchase transactions were audited for compliance with the GAA, [eXpendit](#) and other pertinent statutes.

- No issues were identified.

Travel transactions

Travel transactions were audited for compliance with the GAA, [Texttravel](#) and other pertinent statutes.

- No issues were identified.

Fixed assets

The audit included a limited number of fixed assets acquired by the University during the audit period. Their physical existence and use for state business was verified.

- All assets tested were in their intended location.

Construction contracts transactions

On Sept. 13, 2008, Hurricane Ike made landfall in Galveston, Texas, and caused extensive damage to the University’s campus. To recover from the damage caused by Hurricane Ike, the University received approximately \$1 billion from various sources, including \$150 million earmarked by the Texas Legislature. A review of the payments processed through USAS shows that money from the Texas Legislature was disbursed to numerous vendors, including \$67,500,612.89 to the four contractors listed in Table 1 below.

Table 1 – Payments Made to Contractors from Appropriation No. 38655

Contractors	Payments Processed through USAS
J.T. Vaughn Construction Company	\$35,261,380.41
Linbeck Group, LLC	\$17,618,474.97
Tellepsen Builders, L.P.	\$11,366,822.96
R.L.H Construction	\$3,253,934.55
Total	\$67,500,612.89

When we began the audit, the University informed us that the Texas Division of Emergency Management (TDEM) had hired Horne, LLP (an accounting firm/external auditor) to perform a procurement review of the four contracts selected for audit and listed in Table 1 above. Horne, LLP did not report any exceptions.

Furthermore, the University had hired R.L. Townsend (an accounting firm/external auditor) in February 2013 to audit the four contracts selected for audit:

- J.T. Vaughn Construction Company, Inc. (OFPC 10CM03 – Research Buildings),
- J.T. Vaughn Construction Company, Inc. (OFPC 09CM30 – Health Care Buildings),
- Linbeck Group, LLC (OFPC 10CM02 – Academic and Business Buildings) and
- Tellepsen Builders, L.P. (OFPC 10CM04 – Infrastructure).

As of the date of this report, R.L. Townsend has completed two audit reports; the findings are summarized in Tables 2 and 3 on the following page. In addition, the vendor agreed to credit the applicable amounts to the University.

The other two audits are still in progress. The University will report the results of the two audits to Fiscal Management upon completion.

**Table 2 – R. L. Townsend’s Audit Findings
(Contract Number OFPC 10CM03 – Research Buildings)**

Audit Findings	Amount
Project Management Salaried Labor Overbillings	\$390,923
Bond Rebate	\$31,401
Total	\$422,324

**Table 3 – R. L. Townsend’s Audit Findings
(Contract Number OFPC 09CM30 – Health Care Buildings)**

Audit Findings	Amount
Project Management Salaried Labor Overbillings	\$714,256
Bond Rebate	\$197,482
Anchor Group Billings	\$23,980
Questionable Costs	\$5,473
Total	\$941,191

The University hires an outside auditor on all major construction projects. To avoid duplicating the external auditors’ work, we elected to coordinate the audit of the construction contracts with the external auditors. As a result, we performed a limited procurement and construction contract review.

The procurement review was limited to an assessment of the procurement methodology Horne utilized to determine whether the contractors’ selection process (by the University) was:

- Competitive,
- In compliance with all applicable state laws and regulations, and
- In compliance with the University’s policies and procedures.

In addition, we reviewed the University’s policies and procedures specific to the scoring and ranking of proposals.

- No issues were identified.

The construction contract review was limited to an examination of payment applications to ensure that the contractors submitted adequate documentation to support the amount of the payment request. We requested the supporting documentation (i.e. itemized invoices) for the 25 payment applications selected in the limited sample. All of the 25 payment applications and the supporting documentation were reviewed to determine the accuracy of the costs and whether the costs were supported by adequate and sufficient documentation.

- No issues were identified.

Security

The audit included a security review to identify University employees with security in USAS or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner.

- No issues were identified.

Internal control structure

We performed a limited review of the University's internal control structure. The review was limited to obtaining an understanding of the University's controls sufficient to plan the audit but did not include tests of internal or compensating control that the University may have relating to USAS or the Texas Identification Number System (TINS) security or internal transaction approvals.

We identified one employee who can pick up warrants from the Comptroller's office and approve paper vouchers. The University explained that it has a small accounting staff and multiple security capabilities are necessary, with processing controls in place. The employee could process an emergency paper voucher and pick up the warrant at the Comptroller's office.

The University received a schedule of this finding during fieldwork.

To reduce risks to state funds, agencies should have controls over expenditure processing that segregates each accounting task to the greatest extent practical. Ideally, no individual should be able to enter or alter and then release payments or other accounting transactions within the statewide financial systems without another person's involvement.

The University should review the controls over expenditure processing and segregate each task to the extent possible to ensure that no individual is able to process payments without oversight.

Prior post-payment audit and current audit recurring findings

A prior post-payment audit of the University's payroll and purchase transactions was concluded on March 22, 2011. During the current audit there were no recurring findings.

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